EXCISE

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Department of State TELEGRAM

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INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-10 ADP-00

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

PA-03 RSC-01 PRS-01 SS-15 USIA-15 COME-00 INT-08

TRSE-00 CMB-01 SCEM-02 OPIC-12 CIEP-02 /177 R

DRAFTED BY EB:CRF:FSE:WBWHITMAN:LED
8/13/73 EXT. 20681.
APPROVED BY EB - MR. WILLIS C. ARMSTRONG
NEA - MR. SISCO
EB/CRF/FSE - MR. BENNSKY
AF - MR. BLAKE
L/EB - MR. MUIR (DRAFT)
EB/IFD/OIA - MR. KENNEDY (DRAFT)
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R 132224Z AUG 73
FM SECSTATE WASHDC
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E.O. 11652 GDS - DECLASSIFY DECEMBER 31, 1979
TAGS: ENRG
SUBJECT: *MEETING BETWEEN DEPARTMENT AND U.S. OIL COMPANIES OPERATING IN LIBYA, HELD AUGUST 9 DEPARTMENT OF STATE.*

1. ON AUGUST 9 PRIOR TO MORE RECENT LIBYAN MOVES AGAINST OCCIDENTAL, UNDER SECRETARY CASEY, ACCOMPANIED BY ASSISTANT SECRETARIES SISCO AND ARMSTRONG, HOSTED A MEETING WHICH WE HAD REQUESTED OF OFFICIALS OF THE U.S. OIL COMPANIES OPERATING IN LIBYA. ON AUGUST 1 THESE COMPANIES WERE TOLD BY THE LARG THAT THEY HAD 15 DAYS IN WHICH TO GIVE UP 51 PERCENT OF THEIR CONCESSIONS AT NET BOOK VALUE, WITH BUYBACK AT A SUBSTANTIALLY INCREASED MARKET PRICE, OR THEY WOULD BE PARTIALLY OR TOTALLY NATIONALIZED.

2. OASIS, THE LARGEST PRODUCER IN LIBYA, WAS ALSO THREATENED WITH A SHARP CUTBACK IN ITS PRODUCTION, BUT THIS HAS NOT YET BEEN IMPLEMENTED. [redacted] B1, 1.4

THE COMPANIES HAVE DECIDED TO CONTINUE THEIR UNITED FRONT IN CONFRONTING THIS LATEST LIBYAN DEMAND, WHILE THEY SEEK TO ARRIVE AT A SOLUTION THAT IS MORE ACCEPTABLE FINANCIALLY AND OPERATIONALLY. ALTHOUGH COMPANIES CONCERNED AND UNSURE RE ULTIMATE LIBYAN REACTION, THEY ARE HOPING THAT THE LIBYANS WILL BACK AWAY FROM DRASTIC ACTION AS THEY HAVE IN EARLIER CONFRONTATIONS. WHILE THE LIBYANS ARE AWARE THAT THEIR PRODUCTION WOULD BE GREATLY REDUCED IF COMPANY PERSONNEL WITHDREW, BOTH SIDES KNOW THAT A CUTOFF OF ALL OR EVEN A SUBSTANTIAL AMOUNT OF LIBYA'S OIL (2.3 MILLION BARRELS PER DAY PRODUCTION) COULD NOT BE MADE UP IN TODAY'S TIGHT OIL SUPPLY SITUATION. UPPERMOST IN THE COMPANIES' MINDS IS THE REALIZATION THAT GIVING IN TO LIBYA WOULD MEAN YET ANOTHER ESCALATION OF PRODUCER COUNTRY DEMANDS, ESPECIALLY IN THOSE PERSIAN GULF PRODUCER STATES WHERE CAREFULLY BALANCED PARTICIPATION ARRANGEMENTS HAVE RECENTLY BEEN CONCLUDED. COMPANY ACCESSION TO LIBYAN DEMANDS WOULD ALSO HAVE THE UNDESIRABLE EFFECT OF ENHANCING PRESIDENT QADHAFI'S PRESTIGE IN THE ARAB WORLD, WHILE UNDERMINING THE MORE MODERATE LEADERS IN THE PERSIAN GULF AREA.

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3. ASSISTANT SECRETARY SISCO ENDORSED THIS LATTER VIEW ADDING HIS HOPE THAT SAUDIS WOULD REALIZE THAT ONE-UPMANSHIP AND GENERAL COMPETITION WITH LIBYA ON TERMS SECURED IN AN ARBITRARY STRONG-ARM MANNER WAS NOT IN THEIR INTERESTS. HE NOTED THAT THE SUCCESS WITH WHICH THE LIBYAN GROUP CAN DEAL WITH THE LARG WILL DEPEND GREATLY ON CONTINUED LIBYAN BELIEF THAT THE COMPANIES CAN (A) MAINTAIN A COMMON FRONT AND (B) HAVE AN EFFECTIVE MUTUALLY AGREEABLE OIL SHARING ARRANGEMENT. USG AND COMPANY PARTICIPANTS AGREED THAT A KEY CONSIDERATION IN COMPANY STRATEGY IS AVOIDANCE OF FURTHER LEAPFROGGING OF OIL PARTICIPATION TERMS, PRICES, AND OPERATING CONDITIONS.

4. ANOTHER WIDELY DISCUSSED AREA WAS THAT OF EUROPEAN CONSUMER STATE REACTION [redacted] (B1)

IT WAS THOUGHT THAT THE EUROPEANS SHARE OUR CONCERN ABOUT ESCALATING CRUDE PRICES AND INSTABILITY IN THE OIL MARKET AND THIS PROVIDED A BASIS SHORT OF THE ABOVE EXTREMITIES FOR CONSULTATION AND FOR REPRESENTATION WHERE "HOT OIL" WAS AN ISSUE.

5. COMPANY OFFICIALS EXPRESSED THEIR SATISFACTION WITH THE DEPARTMENT'S ASSISTANCE TO BUNKER HUNT IN ITS LEGAL EFFORTS TO STOP SALES OF OIL FROM ITS NATIONALIZED LIBYAN FIELD AND ESPECIALLY FOR OUR REPRESENTATIONS TO THE GOVERNMENTS OF BRAZIL AND GREECE. MR. CASEY OBSERVED THAT, AS SHOWN IN THE BUNKER HUNT CASE, DEPARTMENT STANDS READY TO MAKE REPRESENTATIONS WHENEVER IT WOULD BE USEFUL. HE REITERATED THAT THE

USG IS INDEED SERIOUSLY CONCERNED ABOUT THE LIKELIHOOD THAT THE LATEST LIBYAN MOVE WILL RICOCHET INTO THE PERSIAN GULF AND IMPERIL THE AGREEMENTS RECENTLY REACHED THERE. ALSO IF THE COMPANIES CONTINUE TO ACCEDE TO

EVER-INCREASING DEMANDS. IT WILL HAVE A NEGATIVE EFFECT ON US AND OTHER CONSUMERS BY RAISING ENERGY PRICES. THE DEPARTMENT IS THEREFORE PREPARED TO MAKE EVERY REASONABLE EFFORT TO ASSIST THE COMPANIES IN THEIR EFFORTS TO RESIST ARBITRARY, DISRUPTIVE DEMANDS AND ACTIONS BY LARG.

4. ACTION ADDRESSEES: FOREGOING IS TO INFORM YOU OF SUBSTANCE DEPARTMENT -- OIL COMPANY MEETING THAT TOOK PLACE JUST PRIOR LIBYAN UNILATERAL NATIONALIZATION 51 PERCENT OF OCCIDENTAL CONCESSION, WHICH SUBSEQUENTLY ACQUIESCED IN BY OCCIDENTAL IN RETURN FOR CASH COMPENSATION. WE REPEATING TO YOU TELEGRAMS ON OCCIDENTAL DEVELOPMENTS. LIBYANS NOW ENGAGED IN NEGOTIATIONS WITH AMOSEAS AND OASIS OVER THEIR CONCESSIONS. YOU CAN, AT YOUR DISCRETION, USE THIS (EXCEPT PARA 4) AND SUBSEQUENT MESSAGES TO KEEP FACTS LIBYAN DEVELOPMENTS STRAIGHT WITH YOUR GOVERNMENT. ROGERS